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June 26, 2009

Via Hand-Delivery

Amanda Ho, Esq.
Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Arizona Corporation Commission

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**Re: Rio Rico Utilities, Inc. - Docket No. WS-02676A-09-0257
Response to Letter of Insufficiency**

Dear Amanda,

We are in receipt of Staff's Letter of Deficiency dated June 22, 2009 in the above-referenced dockets. Please accept this correspondence and the enclosed documents as Rio Rico Utilities, Inc.'s ("RRUI" or the "Company") responses to the specific issues raised in Staff's letters. Please note, no material change has been made to the Company's filings. **RRUI has not changed the amounts of the rate increases sought, the revenue requirements, or the proposed rates.**

We desire to work with Staff to provide the information required to process RRUI's rate application. Rate cases are difficult and costly enough without procedural disputes. Yet we are troubled by Staff's insufficiency findings in this case. The Commission's rules expressly set forth the filing requirements for a Class B water and sewer utility. Staff has not identified a single specific violation of those rules, nor are we aware of any required schedules that were omitted.

Instead, Staff's findings of insufficiency are largely a series of directives by Staff that the Company (1) change its position on certain adjustments; (2) make changes to schedules that are inconsistent with the Company's existing billing system; (3) make immaterial labeling or nomenclature changes within the schedules; and (4) correct minor typos. "Reviewing a rate application for compliance with the Commission's filing requirements is an activity separate and apart from the substantive analysis of the application Staff performs during its investigatory

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Page 2

phase.” Decision No. 57875 (May 18, 1992), Attachment B at 23. This is not what Staff has done in this docket.

Undoubtedly, Staff understands the need for consistent application of the sufficiency rules. The point of the sufficiency requirements is to provide utilities notice of what should be filed. The Company’s affiliate filed schedules a few months ago by the same consultant using the same format and methodology. Staff found that application sufficient without requiring clarifications or additional information from the utility. The same is true of a number of other rate case filings made in the past several years. Similarly, Staff is also undoubtedly aware that another 30-day sufficiency review period is not supported by the Commission’s rules. And, in several other recent cases, Staff has deemed an application sufficient promptly after the utility’s response.

Again, RRUI and this firm prefer to resolve these matters through cooperation with Staff. The Company is seeking and needs substantial rate relief, and any delay is detrimental to RRUI’s financial health. Towards that end, the enclosed responses and revised schedules address Staff’s concerns to the extent possible without changing positions on issues that may be in dispute. In that same spirit of cooperation, we urge Staff to accept the Company’s responses, including responses to a number of insufficiency findings with which we disagree, and **deem the filing sufficient no later than close of business by July 1, 2009**. Another 30-day sufficiency review period would surely send the wrong message to utilities that make an effort to cooperate with Staff notwithstanding legitimate concerns.

If you have any questions, please do not hesitate to call.

Very truly yours,

Jay L. Shapiro

Enclosures

cc: Docket Control
Gerald Becker, Utilities Division
Gerald Tremblay
Greg Sorensen
Tom Bourassa

Rio Rico Utilities Inc.
2009 Rate Application
Docket No. WS-02676A-09-0257

RESPONSE TO STAFF'S FIRST LIST OF DEFICIENCIES
June 26, 2009

Water and Wastewater Division:

1. Common Equity under Projected Year 12/31/2009 of \$13,616,790 on Schedule A-3 does not match Projected Year of \$12,568,306 on Schedule D-1. Please correct or reconcile.

RESPONSE: Attached is a revised D-1. The amount shown for the projected year on the D-1 included on the projected net income under proposed rates for the wastewater division and did not include the projected net income for the water division. The A-3 included net income for both divisions. There is no material change to the application as the projected year shown on the D-1 still shows a 100 percent equity capital structure. Further, the projected year is not used in the weighted cost of capital computation. There are no necessary corrections or conforming changes to other schedules or the application for this item.

Water Division:

2. B-5 for Operation and Maintenance Expense and Pumping Power expenses cannot be supported by reference to E-1 as indicated. Please correct or reconcile.

RESPONSE: Attached is a revised B-5 showing the detail of the amounts used in the computation of working capital. The Company is not requesting working capital. While the Company has revised the B-5 for Staff convenience, there is no material change to the application and there are no necessary corrections or conforming changes to other schedules or the application for this item.

3. Water schedule C-1, page 1, line 28, Income Tax amounts do not agree with respective amounts on supporting schedule, C-2, page 10, line 41 for Test Year Book Results, Test Year Adjusted Results, and Adjusted with Rate Increase amounts. Please correct or reconcile. Similar concern on Sewer schedules.

RESPONSE: C-2, page 10 is a supporting schedule for the computation of income taxes at the effective tax rate under proposed rates for the Test Year Adjusted Results and the computation of income taxes under proposed rates for the Adjusted with Rate Increase results. The computed (\$134,090) income tax based on the Adjusted Test Year Results and the computed \$659,114 income tax based on the Adjusted with Rate Increase result match the amounts shown on the C-1 schedule. It is necessary to include income taxes for the Test Year Adjusted Results at the effective overall tax rate under proposed rates in order to synchronize income taxes on the C-1 schedule with the income tax gross-up factor employed on the A-1 schedule. Without this synchronization the A-1 will not

correctly compute the operating income deficiency and the required revenue increase. For the Water Division, the effective overall tax rate for the Adjusted Test Year Results is not the same effective overall tax rate for the Adjusted with Rate Increase results. Accordingly, the amounts shown on line 41 and line 45 for the Adjusted Test Year Results are not the same. Mr. Bourassa has filed numerous rate applications in the past employing this necessary and correct method of synchronizing the C-1 schedule and the A-1. Prior rate applications submitted by Mr. Bourassa using this method have been accepted by Staff including the recent Black Mountain Sewer application and Litchfield Park Service Company applications. There are no necessary corrections or conforming changes to the schedules or the application for this item.

4. See Schedule B-2, Page 10, Line 45 is described as "Income Tax at Proposed Rates Effective Rate". On the Water schedule, this amount of (\$134,909) does not agree to any of the calculated amounts on Line 41, Total Income Tax corresponding to the amounts of (\$21,616), (\$73,128), or \$659,114 for the "Test Year Book Results", "Test Year Adjusted Results", or "Adjusted with Rate Increase" amounts, respectively. Please explain/correct, as necessary, and make conforming changes on respective C-1 and other schedules.

RESPONSE: The Company believes Staff is referring to C-2, Page 10, Line 45 and not B-2, Page 10, Line 45. On C-2, Page 10, at Line 45, "The Income Tax at Proposed Rates Effective Rate" of (\$134,909) is the computed income tax at the effective tax rate under proposed rates. The computation is the Adjusted Test Year Results taxable income of (\$349,915) times the effective overall tax rate for the Adjusted with Rate Increase result tax rate of 38.6 percent. The (\$134,909) is the income tax amount shown on the C-1 for the Adjusted Test Year Results. As explained in Item 3, above, this is the correct and necessary method in order to synchronize the C-1 with the A-1 for income taxes. Please see response to Item 3, above. There are no necessary corrections or conforming changes to the schedules or the application for this item.

5. Water H-3 Fire Lines rates indicate dollar value changes but 0.00% change for each. Please correct.

RESPONSE: Attached is a revised H-3, page 1. There is no material change to the application nor are there any necessary corrections or conforming changes to other schedules for this item.

Wastewater Division:

6. B-5 for Operation and Maintenance Expense cannot be supported by reference to E-1 as indicated. Please correct or reconcile.

RESPONSE: Attached is a revised B-5 showing the detail of the amounts used in the computation of working capital. The Company is not requesting working capital. While the Company has revised the B-5 for Staff convenience, there is no material change to the application and there are no necessary corrections or conforming changes to other schedules or the application for this item.

7. The amount of \$308,456 on line 45 does agree to the calculated amount on Line 41, Total Income Tax amount corresponding to "Test Year Adjusted Results". For the Wastewater schedule, please explain the reasons that the same amount is described on line 45 as the amounts for "Income Tax at Proposed Rates Effective Rate", yet it is described on line 41 as corresponding to "Test Year Adjusted Results". Please explain/ correct, as necessary, and make conforming changes on respective C-1 and other schedules.

RESPONSE: The Company assumes Staff is referring to Schedule C-2, page 10, line 45. Schedule C-2 page 10 is a supporting schedule for the computation of income taxes at the effective tax rate under proposed rates for the Test Year Adjusted Results and the computation of income tax under proposed rates for the Adjusted with Rate Increase results. You will find that the computed \$308,456 income tax based on the Adjusted Test Year Results and the computed \$274,081 income tax based on the Adjusted with Rate Increase result match the amounts shown on the C-1 schedule. As explained in Item 3, above, it is necessary to include income taxes for the Test Year Adjusted Results at the effective overall tax rate under proposed rates in order to synchronize income taxes on the C-1 schedule with the income tax gross-up factor used on the A-1 schedule. Without this synchronization the A-1 will not correctly compute the operating income deficiency and the required revenue increase. For the Wastewater Division, the effective overall tax rate for the Adjusted Test Year Results is the same effective over all tax rate or the Adjusted with Rate Increase results. Accordingly, the amounts shown on line 41 and line 45 for the Adjusted Test Year Results are the same. Mr. Bourassa has filed numerous rate applications in the past employing this necessary and correct method of synchronizing the C-1 schedule and the A-1 schedule for income taxes. Prior rate applications submitted by Mr. Bourassa using this method have been accepted by Staff including the recent Black Mountain Sewer application and Litchfield Park Service Company application. There are no necessary corrections or conforming changes to the schedules or the application for this item.

8. Wastewater Schedule A-5. Wastewater systems do not have meters. Please explain or correct item labeled "Customer Meter Deposits".

RESPONSE: The Company believes Staff is referring to schedule B-1 and B-2. These are refundable service line charges consistent with the Company's approved tariff and are similar to those collected by water companies. The Company has relabeled the customer deposits on the B-1 and B-2 to avoid confusion. Please find the attached revised schedules B-1, B-2, page 1, and B-2, page 2. There is no material change to the application. There are no necessary corrections or conforming changes to other schedules for this item.

9. Wastewater Schedule B-2, Page 1, CIAC amount is opposite the amount shown Schedule B-2, Page 6. Please correct and make conforming changes as necessary. Also, there appears to be an error whereby AIAC and CIAC amounts results in opposite effects on the rate base calculation on Schedule B-2, Page 1.

RESPONSE: The adjustment shown on Schedule B-1, page 1 is consistent with the necessary adjustment for accumulated amortization shown on Schedule B-2, page 6 (line 12). The

adjustment amount is opposite because the accumulated amortization balance shown on Schedule B-2, page 6 is positive whereas on Schedule B-2, page 1 the balances are shown as negative. The computed balance of accumulated amortization matches the adjusted balance of accumulated amortization on the B-2 schedule. There are no necessary corrections or conforming changes to the schedules or the application for this item.

10. Wastewater Schedule B-2, page 3.1 – 3.8. Please explain the methodology for calculating depreciation expense. i.e. acct 364, Flow Measuring Devices, 2004 Depreciation Expense of \$2,262 on Plant of \$36,057, or 6.27 percent which is not shown as the depreciation rate for this account. Please correct as necessary with conforming changes on other schedules.

RESPONSE: The depreciation amounts for 2004 reflect 9 months of depreciation using depreciation rates in effect prior to Decision No. 67279 (October 7, 2004) and 3 months of depreciation using depreciation rates approved in Decision No. 67279. Of course, half year convention is employed for 2004 additions. For example, acct 364, Flow Measuring Devices, 2004 Depreciation Expense of \$2,262 on Plant of \$36,057, is 9 months of depreciation at 5.03 percent and 3 months of depreciation at 10 percent or 6.27 (9/12 times 5.03 percent plus 3/12 time 10 percent). There are no necessary corrections or conforming changes to the schedules or the application for this item.

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Rio Rico Utilities, Inc.
Test Year Ended December 31, 2008
Summary of Cost of Capital

DOCUMENTS-02676A-09-0257
Schedule D-1
Page 1
Witness: Bourassa
Revised

Line
No.

	<u>End of Test Year</u>				<u>End of Projected Year</u>			
	Dollar	Percent	Cost	Weighted	Dollar	Percent	Cost	Weighted
	<u>Amount</u>	<u>of</u>	<u>Rate</u>	<u>Cost</u>	<u>Amount</u>	<u>of</u>	<u>Rate</u>	<u>Cost</u>
		<u>Total</u>				<u>Total</u>		
5 <u>Item of Capital</u>								
6 Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
7								
8 Stockholder's Equity	12,132,312	100.00%	12.40%	12.40%	13,616,790	100.00%	12.40%	12.40%
9								
10 Totals	<u>\$ 12,132,312</u>	<u>100.00%</u>		<u>12.40%</u>	<u>\$ 13,616,790</u>	<u>100.00%</u>		<u>12.40%</u>
11								
12 ¹ <u>Adjustments to equity</u>								
13 Accum. depreciation adjustments (Water and Wastewater)		\$ (2,013,481)						
14 CIAC adjustments (Water and Wastewater)		\$ (387,774)						
15 Deferred Income Tax Adjustments (Water and Wastewater)		\$ 1,101,805						
16								
17								
18								

19 SUPPORTING SCHEDULES:
20 D-1
21 D-3
22 D-4
23 E-1
24
25
26
27
28

RECAP SCHEDULES:
A-3

Rio Rico Utilities - Water Division
Test Year Ended December 31, 2008
Computation of Working Capital

Exhibit
Schedule B-5
Page 1
Witness: Bourassa
Revised

Line
No.

1	Cash Working Capital (1/8 of Allowance	
2	Operation and Maintenance Expense)	\$ 145,200
3	Pumping Power (1/24 of Pumping Power)	18,396
4	Purchased Water (1/24 of Purchased Water)	-
5	Materials and Supplies	-
6	Prepays	10,289
7		
8		
9	Total Working Capital Allowance	<u>\$ 173,885</u>
10		
11		
12	Working Capital Requested	<u>\$ -</u>
13		

15 SUPPORTING SCHEDULES:

16 E-1

RECAP SCHEDULES:

B-1

17		
18		Adjusted
19	<u>Cash Working Capital Detail</u>	<u>Test Year Results</u>
20		
21	Total Operating Expense	\$ 2,061,862
22	Less:	
23	Income Tax	(134,909)
24	Property Tax	130,373
25	Depreciation	463,297
26	Purchased Water	-
27	Pumping Power	441,501
28	Allowable Expenses	<u>\$ 1,161,600</u>
29	1/8 of allowable expenses	<u>\$ 145,200</u>
30		
31		

Rio Rico Utilities, Inc. - Water Division
Test Year Ended December 31, 2008
Present and Proposed Rates

Exhibit
Schedule H-3
Page 1
Witness: Bourassa
REVISED

Line No.	Monthly Usage Charge for:	Present Rates	Proposed Rates	Change	Percent Change
1	<u>Meter Size (All Classes):</u>				
2	5/8 Inch	\$ 6.45	\$ 13.71	\$ 7.26	112.56%
2	3/4 Inch	9.65	20.51	10.86	112.54%
3	1 Inch	17.10	36.34	19.24	112.51%
4	1 1/2 Inch	34.70	73.74	39.04	112.51%
5	2 Inch	54.00	114.75	60.75	112.50%
6	3 Inch	105.40	223.98	118.58	112.50%
7	4 Inch	173.50	368.69	195.19	112.50%
8	6 Inch	321.25	682.66	361.41	112.50%
9	8 Inch	514.00	1,092.25	578.25	112.50%
10	10 Inch	745.30	1,583.76	838.46	112.50%
11	12 Inch	1,395.00	2,964.38	1,569.38	112.50%
12					
13	Fire Lines up to 8 Inch	\$ 6.48	\$ 13.77	7.29	112.50%
14	Fire Lines 10 Inch	\$ 7.45	\$ 15.83	8.38	112.48%
15	Fire Lines 12 Inch	\$ 14.00	\$ 29.75	15.75	112.50%
16					
17					
18	<u>Gallons In Minimum (All Zones and Classes)</u>	-	-		
19					
20			(Per 1,000 gallons)		
21	Commodity Rates		Present	Proposed	
22	(All Classes)	Block	Rate	Rate	
23					
24	5/8 Inch	0 gallons to 4,000 gallons	\$ 1.44	\$ 2.93	
25		4,001 gallons to 10,000 gallons	\$ 1.70	\$ 3.68	
26		over 10,000 gallons	\$ 1.90	\$ 4.18	
27					
28					
29	3/4 Inch Meter	0 gallons to 6,000 gallons	\$ 1.70	\$ 3.68	
30		over 6,000 gallons	\$ 1.90	\$ 4.18	
31					
32					
33					
34					
35					
36					
37	NT = No Tariff				
38					

Rio Rico Utilities - Wastewater Division
Test Year Ended December 31, 2008
Computation of Working Capital

Exhibit
Schedule B-5
Page 1
Witness: Bourassa
Revised

DOCKET WS-02676A-09-0257

Line

No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	83,630
3	Pumping Power (1/24 of Pumping Power)		3,821
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepays		3,430
6	Materials & Supplies		-
7			
8			
9	Total Working Capital Allowance	\$	90,881
10			
11			
12	Working Capital Requested	\$	-
13			

SUPPORTING SCHEDULES:

E-1

RECAP SCHEDULES:

B-1

17			
18			Adjusted
19	<u>Cash Working Capital Detail</u>		<u>Test Year Results</u>
20			
21	Total Operating Expense	\$	1,339,300
22	Less:		
23	Income Tax		308,456
24	Property Tax		91,705
25	Depreciation		252,672
26	Purchased Water		-
27	Pumping Power		17,426
28	Allowable Expenses		669,041
29	1/8 of allowable expenses	\$	83,630
30			

Rio Rico Utilities - Wastewater Division
 Test Year Ended December 31, 2008
 Summary of Rate Base

Exhibit
 Schedule B-1
 Page 1
 Witness: Bourassa
REVISED

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	\$ 11,829,043	\$ 11,829,043
3	Less: Accumulated Depreciation	5,110,028	5,110,028
4			
5	Net Utility Plant in Service	\$ 6,719,014	\$ 6,719,014
6			
7	<u>Less:</u>		
8	Advances in Aid of		
9	Construction	(861)	(861)
10	Contributions in Aid of		
11	Construction	5,376,456	5,376,456
12	Accumulated Amortization of CIAC	(1,944,057)	(1,944,057)
13			
14	Refundable Service Line Chgs	95,000	95,000
15	Deferred Income Taxes & Credits	(323,602)	(323,602)
16		-	-
17			
18			
19	<u>Plus:</u>		
20	Unamortized Finance		
21	Charges	-	-
22			
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	\$ 3,516,078	\$ 3,516,078
27			
28			
29			
30	<u>SUPPORTING SCHEDULES:</u>		
31	B-2		
32	B-3		
33	B-5		
34	E-1		
35			

Rio Rico Utilities - Wastewater Division
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Schedule B-2
 Page 1
 Witness: Bourassa
REVISED

Line No.		Actual at End of Test Year	Proforma Adjustments Amount	Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	\$ 11,833,279	(4,236)	\$ 11,829,043
3				
4	Less:			
5	Accumulated			
6	Depreciation	4,582,943	527,085	5,110,028
7				
8				
9	Net Utility Plant			
10	in Service	\$ 7,250,336		\$ 6,719,014
11				
12	Less:			
13	Advances in Aid of			
14	Construction	(861)	-	(861)
15				
16	Contributions in Aid of			
17	Construction (CIAC)	5,376,456	-	5,376,456
18				
19	Accumulated Amortization of CIAC	(2,325,014)	380,957	(1,944,057)
20				
21	Refundable Service Line Chgs	95,000	-	95,000
22	Deferred Income Taxes	-	(323,602)	(323,602)
23				
24				
25	Plus:			
26	Unamortized Finance			
27	Charges	-	-	-
28				
29	Allowance for Working Capital	-	-	-
30				
31	Total	<u>\$ 4,104,755</u>		<u>\$ 3,516,078</u>

SUPPORTING SCHEDULES:
 B-2, page 2
 E-1

RECAP SCHEDULES:
 B-1

Rio Rico Utilities - Wastewater Division
 Test Year Ended December 31, 2008
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Schedule B-2
 Page 2
 Witness: Bourassa
REVISED

Line No.		Actual at End of Test Year	1 Plant	2 Accum. Depr.	Proforma Adjustments			5	Adjusted at end of Test Year
					3 DIT	4 CIAC			
1	Gross Utility								
2	Plant in Service	\$ 11,833,279	(4,236)						\$ 11,829,043
3									
4	Less:								
5	Accumulated								
6	Depreciation	4,582,943		527,085					5,110,028
7									
8									
9	Net Utility Plant								
10	in Service	\$ 7,250,336	\$ (4,236)	\$ (527,085)	\$ -	\$ -	\$ -		\$ 6,719,014
11									
12	Less:								
13	Advances in Aid of								
14	Construction	(861)							(861)
15									
16	Contributions in Aid of								
17	Construction (CIAC)	5,376,456				-			5,376,456
18									
19	Accumulated Amort of CIAC	(2,325,014)				380,957			(1,944,057)
20									
21	Refundable Service Line Chgs	95,000							95,000
22	Deferred Income Taxes	-			(323,602)				(323,602)
23									
24									
25	Plus:								
26	Unamortized Finance								
27	Charges	-							-
28									
29	Allowance for Working Capital	-							-
30									
31	Total	\$ 4,104,755	\$ (4,236)	\$ (527,085)	\$ 323,602	\$ (380,957)	\$ -		\$ 3,516,078

SUPPORTING SCHEDULES:

B-2, pages 3-6

E-1

RECAP SCHEDULES:

B-1